

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58136

SHORELINE SCHOOL DISTRICT NO. 412

King County, Washington

September 1, 1995 Through August 31, 1996

Issue Date: April 4, 1997

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SHORELINE SCHOOL DISTRICT NO. 412
King County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Directors
Shoreline School District No. 412
Shoreline, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Shoreline School District No. 412, King County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated December 23, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Shoreline School District No. 412 is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

December 23, 1996

SHORELINE SCHOOL DISTRICT NO. 412
King County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Directors
Shoreline School District No. 412
Shoreline, Washington

We have audited the general-purpose financial statements of Shoreline School District No. 412, King County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated December 23, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

December 23, 1996

SHORELINE SCHOOL DISTRICT NO. 412
King County, Washington
September 1, 1995 Through August 31, 1996

Schedule Of Findings

1. Internal Controls Over Cash Receipts Should Be Strengthened

During our testing of internal controls at the district's school buildings, we noted the following internal control weaknesses over cash receipting:

- a. Money received was not always recorded on official district receipts (in some instances unofficial, improper receipts were used, and at other times no receipts were issued).
- b. The mode of payment was not consistently noted on receipts.
- c. Receipt book usage was not recorded on logs.
- d. The audit trail between receipts written at the schools and the money the schools transmitted to the district was not adequate.
- e. Unused receipts were not properly voided and all copies of voided receipts were not retained.
- f. Checks were not restrictively endorsed at the time of receipt.
- g. Safe combinations were not periodically changed.

The Superintendent of Public Instruction promulgates rules and regulations for school districts under the authority of RCW 28A.505.140. Those rules and regulations are contained in the *Accounting Manual for Public School Districts in the State of Washington*.

Chapter III, Section G-3 of the manual states in part:

Each public school district is responsible for the establishment of procedures for the daily collection of cash, other forms of money, and for the issuance of payee receipts consistent with reliable internal control processes.

Staff responsible for cash receipting at the schools we tested were unaware of the district's required internal control procedures or did not have time to perform them.

Poor internal controls result in decreased accountability over cash receipts and an increased risk that error and irregularities may occur and not be detected in a timely manner, if at all. Furthermore, inadequate records increase audit costs as additional time is required to determine the accountability of public funds.

We recommend the district improve the training and supervision provided to staff assigned to cash receipting functions and improve its receipting system by implementing the following internal controls:

- a. Record all money received on official prenumbered district receipt forms.
- b. Note cash and check composition on all receipts.
- c. Record the use of all district receipt books on logs.
- d. Provide an audit trail between receipts written and money transmitted.
- e. Void and retain all copies of unused receipts.
- f. Restrictively endorse all checks at the time of receipt.
- g. Periodically change safe combinations.

2. Internal Controls Over Associated Student Body Fund Raising Activities Should Be Improved

Our audit of financial activities conducted by the Associated Student Body (ASB) disclosed the following internal control weaknesses:

- a. Administrative oversight was lacking.
- b. Gross profit percentage testing was not performed on all significant fundraising activities.
- c. Revenues from athletic event ticket sales were not properly secured.
- d. Imprest Fund payments were not always supported by an original invoice.
- e. Employee requests for reimbursement of supply expenses, processed through the ASB imprest account, were not processed on district forms.
- f. Purchases greater than the \$200 Imprest Fund maximum were split to avoid district purchasing procedures.
- g. ASB expenditures for group meals were not supported by identification of individuals participating in the meals.

The *Accounting Manual for Public School Districts in the State of Washington*, Chapter III, requires the district to install and maintain a system of internal controls adequate to ensure that resource use is consistent with law, regulation, and policy; that resources are guarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Shoreline School District has adopted the Washington Association of School Business Officials' *ASB Procedures Manual* which provides detailed and adequate guidance for providing internal control over ASB activities. When prescribed standards are not followed, the risk increases that an error or irregularity could occur and not be discovered by management in a timely manner.

Staff responsible for ASB activities at the schools we tested were unaware of the district's required internal control procedures or did not have time to perform them.

Because of the lack of proper documentation, the quantity of merchandise sold, and the completeness of revenue collected and deposited, could not be verified. In addition, inadequate documentation of expenditures fails to demonstrate the public purpose and validity of such expenditures.

We recommend the district improve internal controls over ASB activities.

We further recommend the district monitor ASB activities on an ongoing basis to ensure controls are in place and any discrepancies are corrected in a timely manner.

Auditee's Response

The district agrees internal controls over cash receipts and ASB fund raising activities should be strengthened and will implement the recommendations where economically feasible.

Auditor's Concluding Remarks

Based upon the response, the issues delineated in our report are being addressed. We will review these areas again in our subsequent audit.

We would like to express our appreciation to staff for their assistance and cooperation throughout the audit process.

SHORELINE SCHOOL DISTRICT NO. 412
King County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Financial Statements

Board of Directors
Shoreline School District No. 412
Shoreline, Washington

We have audited the accompanying general-purpose financial statements of Shoreline School District No. 412, King County, Washington, as of and for the fiscal year ended August 31, 1996, as listed in the table of contents. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shoreline School District No. 412, at August 31, 1996, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the fiscal year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 23, 1996, on our consideration of the district's internal control structure and a report dated December 23, 1996, on its compliance with laws and regulations.

Brian Sonntag, CGFM
State Auditor

December 23, 1996

SHORELINE SCHOOL DISTRICT NO. 412
King County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Directors
Shoreline School District No. 412
Shoreline, Washington

We have audited the general-purpose financial statements of Shoreline School District No. 412, King County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated December 23, 1996. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Shoreline School District No. 412 taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag, CGFM
State Auditor

December 23, 1996

SHORELINE SCHOOL DISTRICT NO. 412
King County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Directors
Shoreline School District No. 412
Shoreline, Washington

We have audited the general-purpose financial statements of Shoreline School District No. 412, King County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated December 23, 1996.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1996:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not

limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

December 23, 1996

SHORELINE SCHOOL DISTRICT NO. 412
King County, Washington
September 1, 1995 Through August 31, 1996

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Board of Directors
Shoreline School District No. 412
Shoreline, Washington

We have audited the general-purpose financial statements of Shoreline School District No. 412, King County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated December 23, 1996.

We also have audited the district's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1996. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to carryover of funds, parent involvement, program effectiveness, private school participation, schoolwide projects, timely obligation of funds, parent notification, rights and hearing process, individualized education progress, and timely obligation of funds as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for advances and reimbursements
- amounts claimed or used for matching

The management of the district is responsible for the district's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the district's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Shoreline School District No. 412 complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended August 31, 1996.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

December 23, 1996

SHORELINE SCHOOL DISTRICT NO. 412
King County, Washington
September 1, 1995 Through August 31, 1996

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Directors
Shoreline School District No. 412
Shoreline, Washington

We have audited the general-purpose financial statements of Shoreline School District No. 412, King County, Washington, as of and for the fiscal year ended August 31, 1996, and have issued our report thereon dated December 23, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated December 23, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the district complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated December 23, 1996.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Billings and receipts
 - Payroll
 - General ledger
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Inventory control
 - Property, plant, and equipment

- **General Requirements**

- Davis-Bacon Act

- Relocation assistance and real property acquisition

During the fiscal year ended August 31, 1996, the district expended 62.1 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the district's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

We noted certain matters involving the internal control structure and its operation that we have reported to the management of the district in a separate letter dated December 23, 1996.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

December 23, 1996